Debt, Money, and Happiness

Money Doesn't Create Happiness, but the Lack of Money, or Excessive Debt, can Destroy it
Tips to help you get out of debt and stay out.

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FIX THE PROBLEM

1. If you are in debt, you've **spent money more quickly** than you've earned it!
2. In order to get out of debt or stay out, you've got to **spend less** than you earn (and apply the difference to savings & reducing debt).
3. You'll need to **reduce expenses** or increase income, or a combination of both. Too often increases in income result in increased spending, so curb the spending first if possible. Some have said: "It doesn't matter how much you earn, but it does matter how much you spend."
4. Analyze your **spending habits**. What caused your debt? Do you need to fix a leaky wallet? Some people need to record on paper everything they spend for a month to **find the leaks**.
5. A dollar a day for soda is $365 a year. The estimated long-term cost of a pack of cigarettes is ~$40.
6. Scrutinize your **needs and wants**. Be willing to forego some of your wants, and postpone others in order to get out of debt. Only borrow for things which increase in value, not toys.
7. Seek to eliminate some of your **expenses**, especially recurring expenses. Many who are buried in debt have expensive cell phones, satellite TV, expensive phone options, internet service, storage units, and other monthly conveniences which prohibit them from reducing their debt burden.
8. There is nothing magic about getting out of debt. If an offer sounds too good to be true, it is! Many companies who claim to be able to help you, will worsen your finances if you let them.
9. If you are an impulsive buyer, hide your credit cards at home in a safe place.

TO GET OUT OF DEBT MORE QUICKLY

10. Pay **more than the required** payment (make extra payments in the manner your lenders prescribe – so you don't lose out because of computer errors, etc.) – focus on your highest rate debt first.
11. **Bi-weekly payments** are an excellent means to pay extra principal almost painlessly – **if** your paydays are weekly or bi-weekly, **and if** there are no fees involved, **and if** you deal with a reputable money handler. A person who pays ½ of the required monthly payment bi-weekly makes the equivalent of 13.05[a] payments in an average year. The person who does so, pays the loan off early, and pays significantly less interest – especially on a mortgage loan (a person who pays a ½ payment bi-weekly can reduce a 30 year mortgage by more than 7 years, and save many thousands of dollars in interest). If you wish to match the bi-weekly advantage, but still make monthly payments, multiply your required monthly payment by 13.05 and divide by 12. Pay that amount each month.
12. **Highest rate debt first**. If you have several debts, pay as much as you can on you highest rate debt and the minimum required payments on your other debts. As you pay off one debt, add the amount you were paying toward it to your next highest rate debt, and so on. Often times, this technique is much more effective and efficient than refinancing – even at a lower rate.

TO STAY OUT OF DEBT

13. In order to stay out of debt, you'll need a contingency **plan**. Include:
    An **emergency fund** – which you try to never, ever spend (only in case of severe emergencies).
    A "**for sure**" savings – for your occasional large expenses (e.g. repairs, Christmas, taxes, etc).
    A "**buy stuff**" savings – just to buy things that cost more than your monthly disposable income.
    An overdraft protection **line of credit** to protect you from returned check fees. Don't use it for anything other than to avoid bouncing checks.
    An **"empty" credit card** (one that you rarely if ever use – only for emergencies – 0 balance, 0 int).
    Get into the habit of paying off your credit cards each month to avoid interest charges.
14. The greater the rate, the higher the risk. Get a safe return on at least part of your savings.
15. **Don't co-sign** on others' loans. They may intend to pay, but you may actually pay. Too often, co-signers end up paying off loans they are unprepared for, and financial hardships follow. Numerous

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[a] 13.045 = 365.25 (days in an average year) ÷ 14 (days in a bi-weekly period) x ½ (assuming ½ payments).

co-signors now have negative credit ratings because a primary borrower paid late. Many lenders do not notify the co-signor before reporting delinquencies or repossessions to the credit bureau.

16. **Nothing is risk-free**. If anyone claims a risk-free use of your money, they are lying, or they just don't understand that there is always risk involved – if only opportunity risk.
17. Remember, when you borrow you are still **spending future earnings**, and eliminating future options. When you borrow, even at low rates you are still paying to use someone else's money.
18. The tax advantage of keeping a mortgage loan: You pay me $10,000 this year, and I'll get my Uncle Sam to let you deduct $2,000 from your taxes next year (if you are in the average tax bracket of 20%)

IF YOU MUST BORROW

19. Before you borrow, **compare!** Find the best deal available to you. Pay close attention to the Annual Percentage Rate (**APR**). The APR is extremely useful as a comparison tool.
20. Always try to **beat 13%** APR. Usually you can beat it by a lot (if you keep your credit good)!
21. Utah law has **no interest rate ceiling**. "Easy loans" are available with outrageous costs. Avoid 'em!
22. If you aren't in the habit of **paying off your credit cards** each month, get in the habit! When you do pay off your cards each month, you pay no interest (most credit cards). If you're accustomed to the dangerous reasoning: "I still have unused limit", get over it! Use the wise reasoning: "I don't charge things with my credit card unless I have the money lined up."
23. Watch out for exceptionally "low" or "no interest" offers. Pay close attention to the "fine-print" terms and costs. Beware: **artificially low rates** are often offset by increases in other costs.
24. Beware of advertisers' **B**ear **S**tories:
    a. "Cash out your equity" also means: Get deeper in debt, risk losing your home.
    b. "Put your equity to work" also means: " " " " " " " "
    c. "Pay off high-rate credit cards" can mean: Lose your equity and jeopardize you home because you goofed up and ran up credit card debt.
    d. "Unlock your home equity with our credit card" means: Get deeper in debt & risk losing your home with an incredibly easy way to spend money.
    e. "Refinance and save" usually means: lose equity and pay us more interest.
25. **Pay early** or on time to avoid late fees. Late fees can change a loan with a reasonable rate to one of an outrageous effective rate! Consider yourself late if you aren't early.
26. To **avoid bad credit,** always make your payments before they are due. Bad credit is not only expensive because of late fees, but it is also expensive because of increased cost of future debt.
27. If you've already been financially smashed, hang on until you can bounce back, or get help.
28. Before applying for a loan (especially a mortgage loan), **compare, compare, compare**! Fees, rates, prepayment penalties, and terms. One hour of phone calls may save you thousands of dollars.
29. When **signing** documents, understand what and why you are signing. Don't sign it if you don't agree to it. Take your time. If someone tries to rush you through signing documents tell that person to slow down or "take a hike." Plan on taking at least an hour to wade through a mortgage loan closing.
30. If consolidating, **expect delays**, and keep all other obligations current. It is much easier to get a refund of an overpayment than to suffer from increased charges resulting from delinquency.
    Refinancing a mortgage loan can be great:
    a. If the interest rate of the new loan is significantly less than the old one.
    b. If the total of payments of the new loan is significantly lower than the old one.

    Refinancing a mortgage loan can be a disaster:
    a. If your equity gets eaten up by fees.
    b. If you run up new debt because your consolidated payment is lower.
    c. If you jeopardize your home by adding credit card debt to your home loan.

    (Some lenders love to put your equity into their pockets thru fees, interest, and prepayment penalties).
31. Don't fall for scams. Popular scams include: Lotteries you've never entered. Phony cashier's checks to pay you. Tricks to get your account numbers or SS# and using your identity. Investment scams, especially pernicious when they involve you mortgaging your home to invest. Letting someone else use your good credit rating to buy homes, etc. Don't sign false statements, even simple ones like stating you intend to live in a home you don't intend to live in.

IMPORTANT CONTACTS: Free credit report each year: 877-322-8228 or AnnualCreditReport.com. Opt out of pre-screened solicitations: 800-567-8688. Identity theft hotline (FTC) 877-438-4338.

MONEY, DEBT & HAPPINESS

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David Barker, CPA

1. **Don't sign it unless you agree with it**. If you don't understand it, don't sign it. Far too many people sign documents without understanding the terms they are committing to. Ask questions. If you still don't understand, find someone you trust, who can explain it to you before signing.
2. **The average annual income** of a HS dropout is $20,764; graduate $27,160; college grad $40,529.
3. **Savings**. Pay yourself first. Start now stashing 10% of your income in an "Emergency" savings. Don't use it for anything but real emergencies. Keep a "For Sure" savings account for yearly expenses you know are coming and you can estimate (e.g. Christmas, insurance, taxes, etc.). Also have a "Buy Stuff" account. If you do, you'll be able to avoid many financial disasters which will face you, and you can avoid borrowing money from high-rate lenders.
4. **Borrowing**. Don't borrow money unless you are willing and able to pay it back. Failure to pay debts – on time – causes severe financial, emotional, and family problems. Experts recommend you don't borrow for wants, only for needs, or for things that increase in value. Many lenders will loan you money you can't afford to pay back, especially high-rate lenders.
5. **Co-signing**. Don't co-sign on a loan unless you are willing and able to pay it back. Often, co-signers end up paying off loans they are unprepared for, and financial hardships follow. Numerous co-signors now have negative credit ratings because a primary borrower paid late. Many lenders do not notify the co-signor before reporting delinquencies or repossessions to the credit bureau.
6. **Compare**. Beware: Utah does not have a limit on the amounts or rates lenders may charge. Before you decide who to borrow from, compare! Find out who is offering the best deal at that time – look for the loan with the lowest rate (APR).
7. **APR**. The Annual Percentage Rate (APR). It is the standard rate, so we may compare the cost of borrowing. It is the cost of credit expressed as a yearly rate. When you borrow, always beat 13% APR (consider "13" to be unlucky when it comes to borrowing). Since Utah has no rate ceiling, many lenders charge rates far in excess of 13% APR. Some have been illegally stating other rates such as weekly or monthly rates. Compare APR to APR. If you pay your bills on time, and you aren't over-extended, you can nearly always find loans or financing arrangements at rates lower than 13%. Beware though, because beating 13% does not always mean you are getting a good deal. For instance: the difference in total interest paid on an 11% versus an 8% 30-year, $100,000 mortgage loan is $64,283 (assuming all payments are made as agreed).
8. **Consolidation Loans**. A consolidation loan can result in great savings to borrowers if the new interest rate is significantly lower, and if you don't run-up debt similar to what was just consolidated. But beware, because consolidation loans usually result in substantially more money out of your pocket into the lenders'. For instance, mortgage loans usually involve closing costs. They increase the total debt. Many refinances involve reducing the monthly payment, but increasing the length of payback, which substantially increases the total interest paid. Borrowers who refinance unsecured debt (e.g. credit cards) into a home mortgage, also increase their risk of losing their homes. Also, remember to keep all of your payments current until the old debt is paid off. Too many people have damaged credit ratings, and are in bad financial condition because they counted on money which didn't come when they expected it. Expect delays when applying for loans, especially consolidation loans. Don't spend money before you get it.
9. **Desperation**. Don't get desperate for money. The more desperate you are, the less likely you are to get a good loan.
10. **Auto insurance**. Keep your auto insurance current. Utah law requires you to maintain liability insurance; in addition, most lenders require "full coverage" insurance. If you fail to keep your insurance up-to-date, you could end up making loan payments for years after your car has been totaled. Lenders may repossess your vehicle, or add the cost of a very expensive policy which does not provide the liability insurance required of you by Utah law. You can nearly always obtain full coverage insurance at less expense than the cost of the lenders' single-interest insurance. If you fail to provide liability insurance, your driver's license may be revoked, you may receive a ticket with a fine of $400-$2000, and your vehicle may be impounded. Before you may reinstate your driver's license you must provide SR22 insurance (which is extremely expensive, high-risk insurance). If your lender force-places insurance on you car, get written proof of insurance from your insurance company to your lender, and confirm that it got to the right person at your lender!
11. **Establish good credit**. To avoid bad credit, don't borrow too much, and do pay your bills on time. Inexpensive ways to establish good credit: (1) Obtain a good credit card. When you charge things, pay off the balance each month – **<u>on time</u>** – and pay no interest. (2) Establish a revolving line of credit (an empty loan) as an overdraft protection against bounced checks, and don't use it as a loan. (3) Get a loan to buy a car, or furniture, or etc.) and pay it off within a few months.
12. **Late fees.** To avoid late fees (which multiply the cost of borrowing), pay early, or at least on time.
13. **Repossessions.** To avoid repossessions and associated fees, pay early or on time, and keep your insurance current.
14. **Extra principal → less interest.** To pay less interest on loans, pay more than the minimum required payment. Even small amounts of extra principal, can significantly reduce the total amount of interest you would otherwise pay over the life of the loan. Before doing this, however, make sure your lender accepts extra principal payments, and find out what particular procedure you need to follow to ensure your extra principal is properly applied.
15. **Bi-weekly payments**. If you get paid weekly, or every other week, paying bi-weekly is a very convenient (almost painless) way to reduce your loan term and interest. For instance, if you make ½ of your required monthly payment every 14 days (a bi-weekly

period), you pay the equivalent of 13.05[b] payments in an average year. If you don't get paid bi-weekly, or if your lender doesn't like biweekly payments, you can pay the equivalent amount in monthly installments. If you pay 1/12 of the sum of 13.05 payments each month, you will match the bi-weekly advantage (minor rounding differences). Contrary to popular belief, the frequency of paying ½ payment bi-weekly doesn't accomplish much, the real advantage is paying the extra principal (13.05 payments, or more, each year) which reduces the term and the interest paid. If you are considering signing up for a bi-weekly program, pay close attention to the cost. Some servicers have large set-up fees and transaction fees. Also consider the credibility of any company handling your money, some have diverted payments into their own pockets, leaving borrowers to make payments twice (once to a corrupt servicer, and a second time directly to the lender).

16. **Scams & bad deals.** Identity theft is the #1 scam. Keep your account #s, and Social Security # out of the hands of those who don't need to know them. Don't pay up-front fees in hopes of obtaining a loan or a credit card. An exception to this rule is a home loan, which usually involves appraisal and credit report fees - paid in advance. Popular loan scams ask people to send a fee for a promised loan or credit card even if their credit rating is bad. Watch out for someone who pays you too much with a phony "certified check" and asks you to wire them the difference. If you do, you lose. Utahns tend to be too trusting: we need to act smarter! Don't sign untrue statements! Beware of companies who loan to people with bad credit.
17. **Credit cards.** If used well, great tools, if used poorly, financial ruin! If you're too impulsive, hide your card! To avoid paying interest and fees, pay off your entire balance each month (on early or time). Most charge no interest if the balance is paid off within the billing cycle. If you pay only the minimum required payment, like one in four Americans, you lose.
18. **Unauthorized use of credit cards.** If a charge - which you did not authorize - appears on your credit card statement, contact the credit card company immediately. Follow-up your dispute in writing within 60 days to ensure your rights.
19. **Disputed items.** If you are dissatisfied with a product or service you charged with your credit card, first make a "good faith" attempt to resolve the dispute with the merchant. If you are unable to resolve it, contact your credit card provider and file an official dispute. Do this within 60 days of the charge to preserve your rights and avoid negative credit, etc.
20. **Debit cards**. If you, or someone else, uses your debit card, money is deducted from your checking account. For pre-authorized purchases (e.g. gasoline or motels) a "hold" is placed on your checking account, usually for an amount larger than the expected charge. This hold can cause other checks or charges to be returned -- if you don't have a sufficient cushion of funds in your account, or a backup system (e.g. overdraft line of credit loan). Once funds are deducted from your account, it is often difficult or impossible to get your money refunded. Don't use a debit card for mail order, telephone, or internet purchases. Even if you don't get what you ordered, you may not be able to get your money back.
21. **Reconcile your checking account.** The sooner you do it, the easier it is. As soon as you receive your bank statement, compare it with your check register – item by item. Make sure both you and the bank have recorded things correctly. If you find that the bank has made errors, or the statement includes unauthorized deductions, contact them immediately.
22. **Blank checks.** Keep your blank checks in a safe place. Although you may not be technically responsible if someone steals your checks and forges your name, consumers are often unable to recover their funds which have been deducted from their account. Financial institutions have several defenses including consumers' negligence.
23. **Bounced checks.** To avoid costly bounced checks, tie your checking account to a revolving line of credit (an empty loan). If you have such a pre-arranged plan, and write a check for more than your available balance, a loan advance is made to pay the check. If you pay off that loan quickly, most financial institutions charge you very little in interest and fees. Keep that line of credit reserved as your checking account backup – and don't use it for anything else. Bounced check fees, are very costly. Beware; many banks automatically provide **very high-cost** "bounce protection" programs for those who don't.
24. **Solicitations.** Don't give your account numbers, credit or debit cards, or your Social Security numbers to anyone who phones or e-mails you. They may not actually be who they claim to be. They may fraudulently use your information, and the damage done to you financially, or to your credit rating, may cause huge headaches, and a horrendous waste of your time, money and energy trying to correct the problems.
25. **Investing.** If you can't afford to lose it, don't speculate with it. The greater the rate, the higher the risk.
26. **Risk Free.** Nothing is "risk-free". Especially nothing involving money.
27. **Too good to be true.** If something sounds too good to be true, it is! Don't fall for the scams. Heed the clues!
30. **Credit repair.** Be weary of credit repair services. Some claim to be able to "fix" bad credit. If you have inaccurate information on your credit report, you may contact the credit bureaus directly and correct it yourself. If you have had credit problems, any attempts to remove the relevant information from your credit report are illegal, fraudulent, and only temporary. You may obtain a copy of your own credit report for free by contacting www.AnnualCreditReport.com.
31. **Happiness.** Money doesn't create happiness, but the lack of money, or too much debt, can destroy it. The number one cause of divorce in the US is money problems. The number one cause of worse money problems and more unhappiness is divorce. If you want to avoid this vicious cycle, do a better job of screening your potential marriage partners, and don't make important financial decisions without consulting one another and agreeing on your actions. Happily married people suffer least from depression, and have happier children. Rich people tend to have unhappy children.

(To view or download a PowerPoint slideshow, go to www.dfi.utah.gov, general info, consumer tips.) db 4/5/07

[b] In most years, a person who gets paid bi-weekly has 26 paydays. If s/he pays ½ of the monthly payment biweekly s/he pays the equivalent of 13 payments (26 x ½ = 13). About ever 11yrs, a person who is paid biweekly gets 27 paydays. Therefore, in an average year: 13.05 pmts.